

Management's Discussion and Analysis (Unaudited)

As management of the City of Franklin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2009, by \$183,704,208 (**net assets**). Of this amount, \$4,900,398 (**unrestricted net assets**) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by a net amount of \$5,670,518. Investment in capital assets, net of related debt increased by \$12,432,436, while unrestricted net assets decreased by \$2,317,663 and restricted net assets decreased by \$4,444,255. The changes in the three categories were related. The restricted decrease was due to the planned use of debt service reserves to meet the higher scheduled repayments. The unrestricted decrease was related to the decision to use unrestricted reserves to prepay debt that otherwise would be due in 2010 and 2011. The reduction in debt was the primary reason that the investment in capital assets, net of related debt increased significantly.
- The City's governmental funds reported, as of December 31, 2009, combined ending fund balances of \$16,881,942, a decrease of \$8,917,269 from the prior year. There was a (**unreserved fund balance**) in total of \$736,290 due primarily to the fund deficit in the TIF Districts Fund which represents the approximate amount of interfund advances remaining. The receipt of future tax increments will address that issue. Unreserved fund balances in other funds amounted to \$6,471,030 or approximately 40 percent of the total fund balance that is available for spending at the government's discretion.
- The unreserved fund balance as of December 31, 2009 for the general fund was \$5,078,711 or approximately 21 percent of total anticipated 2010 general fund expenditures.
- The City's Governmental activities debt decreased by \$10,915,000 during 2009. Scheduled repayments of \$6,515,000 were augmented by \$4,400,000 in debt repayments from discretionary funds due to the low reinvestment rate on investments.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The governmental activities of the City include general government, public safety, public works, health & human services, culture & recreation and conservation & development. The business-type activities include the Franklin Water Utility and the City Sanitary Sewer fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate Community Development Authority for which the City is financially accountable. Financial information for this blended component unit is reported as part of the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A & B of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General, Debt Service and TIF Districts

Funds, that are considered to be major funds. Data from the remaining twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report.

The basic governmental fund financial statements can be found on Exhibits C, D, E & F of this report. These statements include a budgetary comparison of the General Fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Operating Fund, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement Fund, Sanitary Sewer Fund and the Franklin Water Utility. A budgetary comparison statement has been provided for all governmental funds demonstrating compliance with their budgets.

Proprietary funds

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The proprietary fund financial statements can be found on Exhibits G, H & I of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The fiduciary funds maintained by the City are the Property Tax Agency Fund, that records the tax roll and tax collections for the City and other taxing jurisdictions, an other agency funds to record that activity and a post employment benefits trust to hold funds until needed to pay designated health benefits for current and future retirees.

The basic fiduciary fund financial statements can be found on Exhibit J & K of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements is found on pages 38 – 73 of this report.

Other information

In addition to the basic financial statements, notes and accompanying notes, this report also presents certain **required supplementary information** concerning the City of Franklin's progress in funding its pension obligations to its public works employees and its retiree health obligations to eligible full time employees. Required supplementary information can be found on page 74 of this report.

The combining and individual fund financial statements and schedules section presents combining statements in connection with non-major governmental funds, a detailed budgetary comparison schedule for the General Fund to demonstrate compliance with the

budget complementing the statement included in the basic governmental fund financial statements, and other information related to the individual funds are presented immediately following the required supplementary information. Schedules 1 to 11.2 can be found on pages 75 – 91 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$183,704,208 and \$178,033,690 at the end of 2009 and 2008, respectively.

CITY OF FRANKLIN NET ASSETS December 31, 2009 and 2008

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 52,453,291	\$ 59,842,143	\$ 4,261,888	\$ 3,672,234	\$ 56,715,179	\$ 63,514,377
Capital assets	115,276,159	112,989,942	90,828,559	90,842,486	206,104,718	203,832,428
Total assets	<u>167,729,450</u>	<u>172,832,085</u>	<u>95,090,447</u>	<u>94,514,720</u>	<u>262,819,897</u>	<u>267,346,805</u>
Long-term liabilities	40,734,583	50,845,466	80,078	80,634	40,814,661	50,926,100
Current liabilities	37,222,328	37,336,035	1,078,700	1,050,980	38,301,028	38,387,015
Total liabilities	<u>77,956,911</u>	<u>88,181,501</u>	<u>1,158,778</u>	<u>1,131,614</u>	<u>79,115,689</u>	<u>89,313,115</u>
Net assets:						
Invested in capital assets, net of related debt	86,456,038	74,009,675	90,828,559	90,842,486	177,284,597	164,852,161
Restricted	1,291,825	5,732,084	227,388	231,384	1,519,213	5,963,468
Unrestricted	<u>2,024,676</u>	<u>4,908,825</u>	<u>2,875,722</u>	<u>2,309,236</u>	<u>4,900,398</u>	<u>7,218,061</u>
Total net assets	<u>\$ 89,772,539</u>	<u>\$ 84,650,584</u>	<u>\$ 93,931,669</u>	<u>\$ 93,383,106</u>	<u>\$ 183,704,208</u>	<u>\$ 178,033,690</u>

The largest portion of the City's net assets (approximately 96 and 93 percent, in 2009 and 2008, respectively) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these net assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$177,284,597 and \$164,852,161 in 2009 and 2008, respectively of the year end net assets. The changes in capital assets were as follows:

	Net Capital Asset		Change in Capital		Net
	Additions	Depreciation	Related Debt		Increase
2009	\$ 6,515,153	\$ (4,242,863)	\$ 10,160,146	\$	12,432,436
2008	\$ 9,180,579	\$ (4,111,758)	\$ (6,315,052)	\$	(1,246,231)

The major City projects contributing to this increase was in 2009 the reconstruction of Drexel Avenue from 27th Street to 31st Street, the reconstruction of Fire Station #3 and increased road resurfacing due to the low price of asphalt. In addition the debt repayments resulted in a significant decrease in capital related debt. In 2008 the reconstruction of Drexel Avenue from Highway 36 to Highway 100 and the installation of a 24" transmission main from 68th to 51st along Puetz Road. Infrastructure contributed by developers as part of developer's agreements contributed approximately \$351,000 in 2009 and \$864,000 in 2008 to the capitalized infrastructure through capital grants and contributions of governmental activities and \$568,000 in 2009 and \$734,000 in 2008 to capitalized infrastructure through capital grants and contributions for business-type activities.

An additional portion of the City's net assets (0.8 percent and 3.3 percent in 2009 and 2008, respectively) represent resources that are subject to external restrictions on how they may be used. There were \$1,519,213 and \$5,963,468, respectively in those net assets that were restricted to specific purposes with the remaining balance in unrestricted net assets of \$4,900,398 and \$7,218,061, in 2009 and 2008 respectively may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year the City was able to report positive balances in the unrestricted net assets of the government as a whole as well as for its separate business-type activities. The governmental activities unrestricted net assets did show a deficit in 2009 primarily due to the City's decision to use available resources to prepay debt service otherwise due in the next two years and funded by future tax levies. In this way higher cost interest obligations are repaid early at a time when cash reserves are otherwise earning substantially less.

There was a 2009 decrease of \$4,444,255 in restricted net assets reported in connection with government-wide activities. The decrease was primarily due to the reduction in available debt service funds (\$1,915,000), additional interfund advances (\$2,645,000), and lesser changes in other restricted funds.

There was a 2008 increase of \$558,189 in restricted net assets reported in connection with government-wide activities. The increase was primarily due to the increase in available debt service funds (\$407,000), and growth in available Development funds (\$440,000) offset by the use of utility improvement funds to pay for Puetz Road 24" transmission main (\$368,000).

There was a 2009 decrease of \$2,317,663 in unrestricted net assets reported in connection with government-wide activities. The major reasons for the decrease was the use of funds for debt service purposes (\$2,645,000) and the reduction in the general fund (\$440,403) due to using net assets to ease the transition to fully funding the OPEB obligations and in countering the shortfall in budgetary revenue of about \$1,000,000.

There was a 2008 increase of \$6,008,580 in unrestricted net assets reported in government-wide activities. The major reason for the increase was the decrease in the advances to other funds that resulted in increased unrestricted net assets.

Government-wide activities

The details of changes in net assets follow:

**City of Franklin Changes in Net Assets
For the Year Ending December 31, 2009 and 2007**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue						
Program revenue:						
Charges for services	\$ 3,317,477	\$ 3,753,496	\$ 7,448,519	\$ 6,925,236	\$ 10,765,996	\$ 10,678,732
Operating grants & contributions	2,080,213	2,285,275	-	-	2,080,213	2,285,275
Capital grants & contributions	1,190,090	1,735,333	337,667	734,367	1,527,757	2,469,700
General revenue:						
Property taxes	24,966,591	24,219,961	-	-	24,966,591	24,219,961
Other taxes	666,767	472,575	-	-	666,767	472,575
Intergovernmental	1,380,418	1,320,286	-	-	1,380,418	1,320,286
investment earnings	1,401,560	1,862,688	46,738	67,617	1,448,298	1,930,305
Other	43,566	14,451	57,627	267,819	101,193	282,270
Total revenue	35,046,682	35,664,065	7,890,551	7,995,039	42,937,233	43,659,104
Expenses:						
General government	2,948,713	3,028,903	-	-	2,948,713	3,028,903
Public safety	15,526,031	15,598,643	-	-	15,526,031	15,598,643
Public works	6,034,720	6,900,407	-	-	6,034,720	6,900,407
Health & Human services	708,084	663,262	-	-	708,084	663,262
Culture & Recreation	1,780,896	1,803,155	-	-	1,780,896	1,803,155
Conservation & development	572,342	718,032	-	-	572,342	718,032
Interest on long-term debt	2,253,215	2,654,969	-	-	2,253,215	2,654,969
Water	-	-	4,216,453	3,928,578	4,216,453	3,928,578
Sewer	-	-	3,226,261	3,069,523	3,226,261	3,069,523
Total expenses	29,824,001	31,367,371	7,442,714	6,998,101	37,266,715	38,365,472
Increase in net assets before transfers	5,222,681	4,296,694	447,837	996,938	5,670,518	5,293,632
Transfers	(100,726)	424,212	100,726	(424,212)	-	-
Increase in net assets	5,121,955	4,720,906	548,563	572,726	5,670,518	5,293,632
Net assets - beginning	84,650,584	79,929,678	93,383,106	92,810,380	178,033,690	172,740,058
Net assets - ending	\$ 89,772,539	\$ 84,650,584	\$ 93,931,669	\$ 93,383,106	\$ 183,704,208	\$ 178,033,690

Governmental activities in 2009 increased the City's net assets by \$5,121,955 accounting for 91 percent of the total growth in the net assets of the City. Elements of this increase follow:

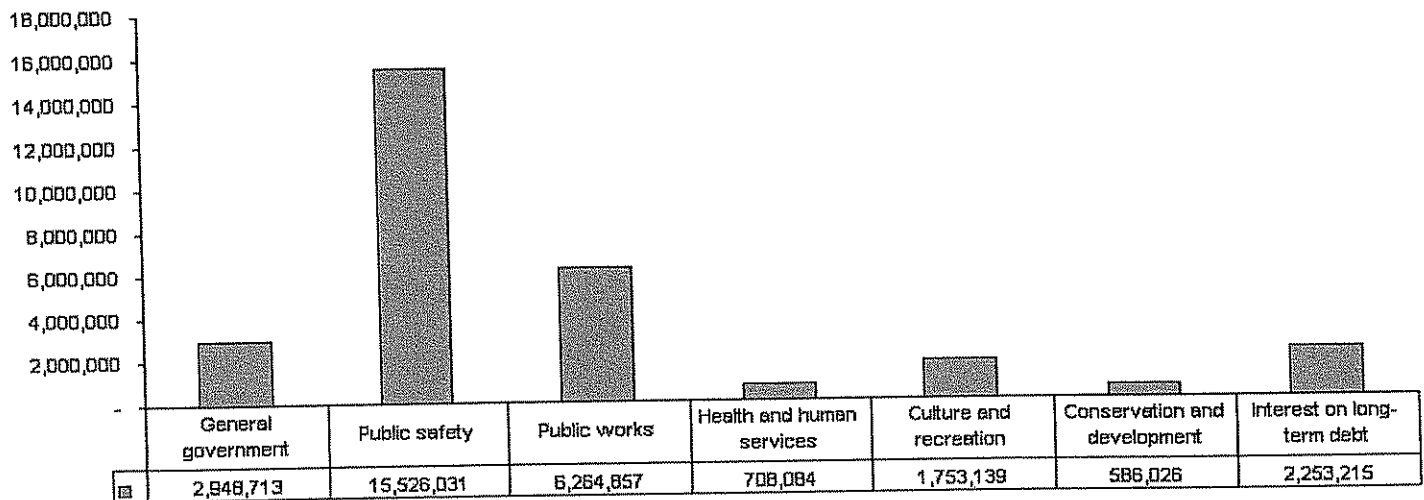
- Decrease due to General Fund activity of \$457,019
- Increase due to the decrease in Long term Debt of \$1,737,327
- Increase in governmental activities capital assets net of depreciation of \$2,286,217
- Increase due to the increase from TIF District activities of \$2,744,498
- Net increase from internal service activities of \$678,445
- Net increase from special assessment activities of \$21,409
- Decrease due to Capital Improvement activities of \$991,330
- Decrease due to Street Improvement activities of \$704,633
- Net decrease from other funds activities of \$192,959

Governmental activities in 2008 increased the City's net assets by \$4,720,906 accounting for 89 percent of the total growth in the net assets of the City. Elements of this increase follow:

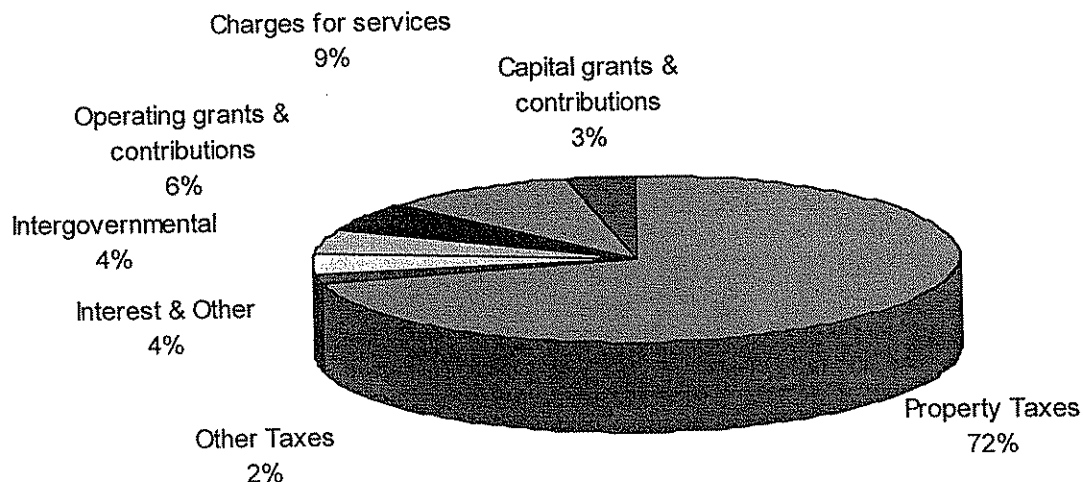
- Decrease due to General Fund activity of \$608,554
- Net decrease in Debt service activities of \$876,545

- Increase in governmental activities capital assets net of depreciation of \$4,469,188
- Net increase from internal service activities of \$910,553
- Net decrease from special assessment activities of \$628,933
- Net increase from TIF Districts activities of \$1,371,002
- Net increase from other funds activities of \$84,195

Expenses by Function - Governmental Activities



Revenue by Source - Governmental Activities



Business-type activities

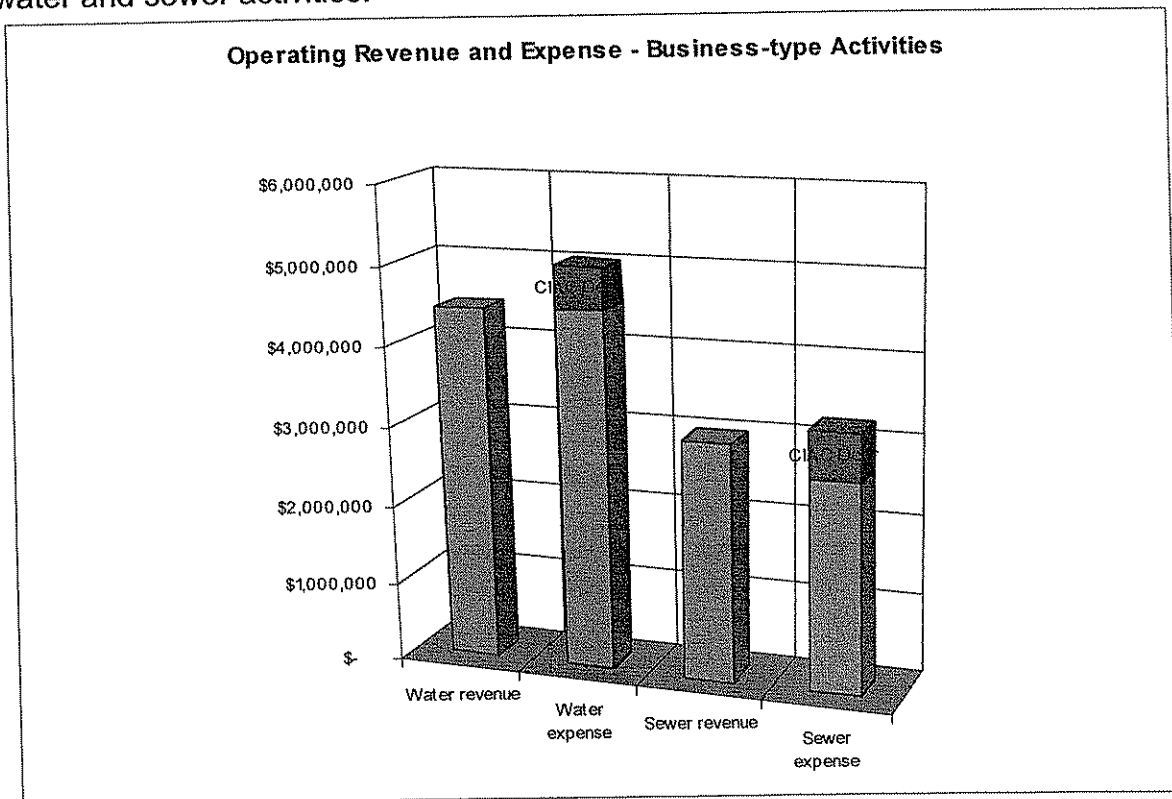
In 2009, business-type activities increased the City's net assets by \$548,563 or .6 percent from the prior year. The key elements of this increase follow:

- The increase from operating activities (the change in net assets excluding capital contributions and its related depreciation expense was \$298,673. The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users. The sewer revenue remains below the level necessary to meet this goal.
- Contributions of water infrastructure - \$1,336,229 consisting of three developer projects and three City projects
- Contributions of sewer infrastructure - \$25,444 consisting of one developer projects
- Depreciation expense related to contributed assets - \$1,111,783

In 2008, business-type activities increased the City's net assets by \$572,726 or .6 percent from the prior year. The key elements of this increase follow:

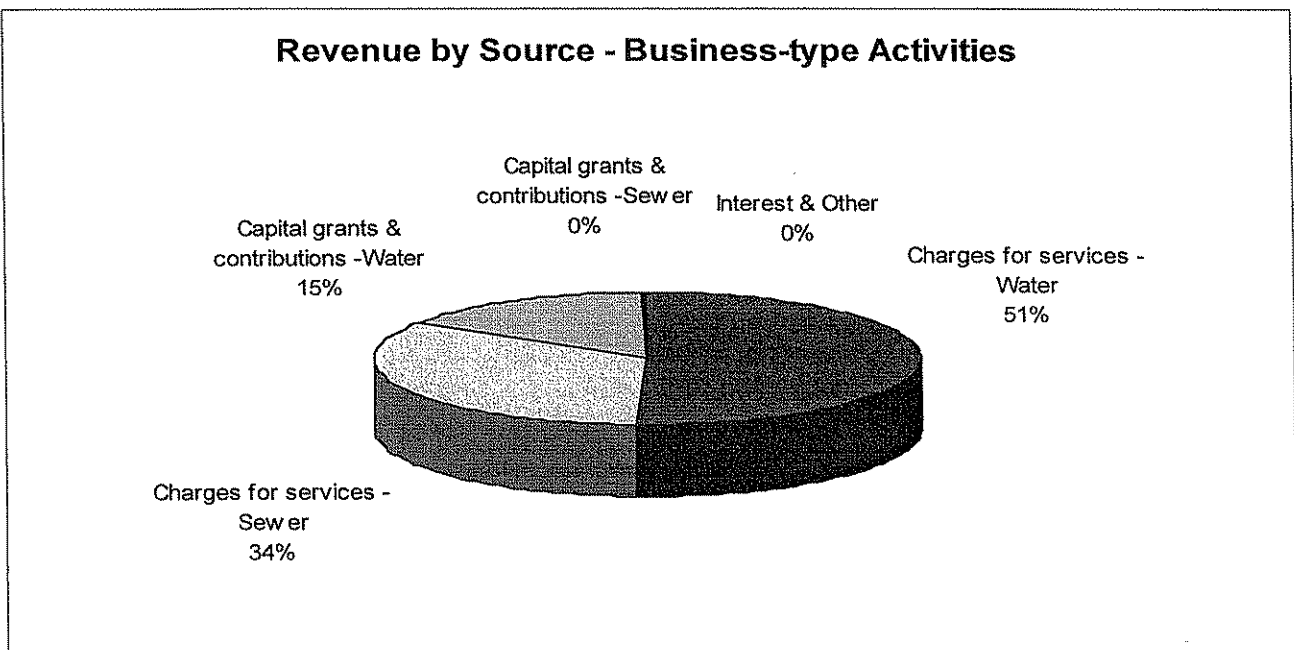
- The increase from operating activities (the change in net assets excluding capital contributions and its related depreciation expense) was \$500,584. The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users. The sewer revenue is currently below the level necessary to meet this goal.
- Contributions of water infrastructure - \$689,955 consisting of four developer projects and one City project
- Contributions of sewer infrastructure - \$477,220 consisting of three developer projects and one City project
- Depreciation expense related to contributed assets - \$1,095,033

The following graph compares the 2009 charges for services to the operating expenses for water and sewer activities.



Water and Sewer expenses can exceed revenue due to the current policy of including only depreciation from City spending on capital assets in the rate formula. The large amount of new infrastructure that has been installed in recent years is the reason for this policy. When maintenance and replacement costs begin to increase this policy may need to be reevaluated.

As shown on the following chart, the Business-type revenue includes capital grants and contributions, investment earnings and miscellaneous income in addition to charges for services (operating revenue).



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds.

The focus of the City's **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,881,942, a decrease of \$8,917,269 in comparison with the prior year. At year end there was unreserved fund balance in total of \$736,290. Of this total unreserved fund balance, the following amounts were committed to specific types of activities; i.e., \$5,078,711 for general fund activities, \$165,348 for special revenue fund activities, \$1,226,971 for capital project activities and offset by a \$5,734,740 deficit in the TIF Districts activities. The TIF Districts deficit is due to the favorable type of interim financing selected and will be addressed by a permanent source of financing at an appropriate time.

The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$8,845,900), 2) for advances to other funds (\$5,463,000) 3) for development purposes (\$406,562), 4) for library purposes (\$442,509), 5) uncompleted contracts (\$517,000), 6) encumbrances (\$3,000) and 7) for emergency medical services, prepaid expenses, inventories, utility improvement, donations and grants (\$467,681).

The **General Fund** is the chief operating fund of the City. As of December 31, 2009, the total fund balance of the general fund was \$5,104,638 of which \$5,078,711 was unreserved. This unreserved fund balance represents approximately 21% of 2010 general fund expenditures.

The total fund balance of the general fund decreased by \$440,403 in fiscal year 2009. The 2009 annual program budget for the City's general fund identified an appropriation of \$1,309,000 in fund balance to reduce the impact of taxes levied and to balance the budget. Actual expenses were less than budgeted expenses by 7.4 percent or \$1,875,654 and actual revenue was less than budget revenue in the general fund by \$1,008,057 or 4.2 percent. This resulted in the fund balance declining by \$440,403. The underexpenditures were mainly from vacancy in authorized positions and unused contingency. The revenue decline was due from less interest, ambulance revenue and permit revenue due to the economic slowdown.

The **Debt Service Fund** has a total fund balance of \$2,078,900, \$60,900 of which is reserved for the payment of debt service and \$2,018,000 is reserved for advances made to the TIF Districts fund. The fund balance decrease of \$6,260,340 came from a planned reduction in fund balance to pay part of the debt service obligation for the year (\$2.5 million) and the calling of 2010 and 2011 debt to better utilize available liquid assets (\$4.4 million).

The **TIF Districts Fund** has an unreserved fund deficit of \$5,734,740 and a reserved fund balance of \$9,152,000 for a net fund balance of \$3,417,260. The fund deficit is due to borrowing and investing those funds in infrastructure. The fund balance is due to an \$8.8 million note receivable issued under a development agreement and some contractual obligations.

The **Nonmajor Government Funds** have a total fund balance of \$6,281,144. The fund balance decrease came mainly from the reduction in the Capital improvement fund (\$991,330) as resources were paid out to complete projects in process and in the Street improvement fund (\$704,633) where the City took advantage of low asphalt prices and doubled the miles of road resurfaced.

The City's **Proprietary Fund** provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility at the end of the year amounted to \$1,756,993, an increase of \$182,544 from December 31, 2008. The growth in total net assets was \$716,384.

Unrestricted net assets of the Sanitary Sewer Fund at the end of the year amounted to \$1,118,729, an increase of \$383,942 from December 31, 2008. In spite of the increase total net assets decreased by \$167,821.

The enterprise funds financial statements can be found on Exhibits G, H and I of this report.

General Fund Budgetary Highlights

Budgetary differences were relatively minor. The major issue was the economy and the resulting decline in operating revenue that resulted in actual revenue being \$1,008,057 below budgeted revenue. This was primarily due to three areas development related (building permits, engineering review fees, zoning and filing fees) down \$402,000, interest revenue down \$357,000 and ambulance revenue down \$309,000. The ambulance revenue was mainly due to an optimistic budget forecast.

Actual expenditures were less than budgeted expenditures by \$1,875,654. This amount was across all functions and impacted by a hiring freeze due to economic conditions. The Information services, Police, Dispatch, Fire, Engineering, Highway, Parks and Planning departments accounted for the largest portion of the under expenditures. The unused contingency budget was \$647,000. There were overexpenditures in municipal court, legal, refuse collection, and animal control budgets.

With significant economy related revenue decreases, budget under expenditures were unable to offset the revenue decline and the planned reduction in the general fund balance resulting in an actual reduction of \$440,403.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2009, amounts to \$206,104,718 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

City's Investment in Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 24,664,244	\$ 24,648,453	\$ 429,884	\$ 426,384	\$ 25,094,128	\$ 25,074,837
Buildings and Improvements	23,924,476	23,069,585	2,322,250	2,322,250	26,246,726	25,391,835
Improvements other than buildings	85,791,859	81,281,205	106,500,217	105,178,334	192,292,076	186,459,539
Machinery and and equipment	14,934,355	14,223,837	2,535,712	1,975,076	17,470,067	16,198,913
Construction in process	<u>151,662</u>	<u>1,624,809</u>	<u>56,229</u>	<u>611,614</u>	<u>207,891</u>	<u>2,236,423</u>
Total capital assets	149,466,596	144,847,889	111,844,292	110,513,658	261,310,888	255,361,547
Less Accumulated depreciation	(34,190,437)	(31,857,947)	(21,015,733)	(19,671,172)	(55,206,170)	(51,529,119)
Capital assets net of Depreciation	\$ 115,276,159	\$ 112,989,942	\$ 90,828,559	\$ 90,842,486	\$ 206,104,718	\$ 203,832,428

The total increase in the City's net investment in capital assets net of depreciation for the current fiscal year was a total of \$2,272,290 or a 1.1 percent increase.

For further details on capital asset activity, refer to Note 1(D)5 and Note 4(D) of the Notes to Financial Statements and Schedules 11 – 11.2.

Long-term debt

At December 31, 2009, the City had general obligation note and bond issues outstanding totaling \$45,165,000. State statutes limit the amount of general obligation debt a governmental entity may issue up to 5 percent of its total equalized valuation. The current debt limitation for the City is \$195,632,130. The City's current outstanding general obligation debt is 23% of the statutory debt limit. In the last 15 years the City has not exceeded 34 percent of the statutory debt limit.

In early 2009 the City called and prepaid \$4,400,000 of tax exempt general obligation notes scheduled for repayment in 2010 and 2011 by temporarily using available City resources. The purpose was to reduce the City's carrying cost at a time when reinvestment rates are at historical low levels. The City resources will be returned as the tax levies are received designed to repay the original obligation.

The City's present rating from Moody's for its general obligation debt is "Aa2".

The Franklin Water Utility has no debt outstanding. The Board of Water Commissioners intention is to generally avoid debt by maintaining and building cash and investments and from time to time making improvements to its rate structure. The utility's plan is to make future infrastructure improvements including water main replacement and new water service from current reserves and from City collected impact fees.

City of Franklin's Outstanding Debt (All purposes)						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation						
notes	\$ 35,285,000	\$ 46,050,000	\$ -	\$ -	\$ 35,285,000	\$ 46,050,000
bonds	<u>9,880,000</u>	<u>10,030,000</u>	<u>-</u>	<u>-</u>	<u>9,880,000</u>	<u>10,030,000</u>
Total	\$ 45,165,000	\$ 56,080,000	\$ -	\$ -	\$ 45,165,000	\$ 56,080,000

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 10 – 12 in the statistical section of the report.

Other Changes of Significance

Defined Benefit Pension Plan Administration

During 2008 a new administration contract was implemented for the Public Works Employee Pension Plan. The result of the change in the assumption was the reduction in the annual required contribution. In 2009 the investment assumptions were changed to allow for a five year smoothing of investment returns partially as a result of the losses incurred in the portfolio's investments. This change has increased the annual cost of this pension program.

Post Employment Health Care Benefits

The City of Franklin provides retiree health care benefits to certain retiree groups from the date of retirement until age 65. Prior to 2008 the City's portion of health care cost was recognized as expenditure in the period premiums were paid. Funding for those costs was

provided out of the current operating budget of the City. This was referred to as financing on a pay as you go basis.

The Government Accounting Standards Board (GASB) issued Statement #45 effective for the City of Franklin on January 1, 2008 that said that the expense of these benefits has to be recognized over the working lives of the employees. The City studied the issues surrounding GASB Statement #45 over the previous four years. The Common Council concluded that the City of Franklin should not only recognize the expense on its financial statements but should fund those amounts out of its general revenue starting in 2008 with the establishment of a section 115 trust. The actuarial computed annual required contribution under GASB #45 for 2009 was \$587,216 and for 2008 was \$703,713. A combination of tax levy and use of fund balance was used to implement full funding over a three year period.

More detailed information can be found in footnote 5C.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2009 for the City was 7.0%, Milwaukee County which includes the City, is 9.3 percent. This compares with an unemployment rate of 8.3 percent for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were 1.5%, 3.18%, and 1.93%, respectively.
- The tax levy increase for the current and prior two years were, \$587,000, \$1,054,000 and \$935,000, respectively.
- The 2010 budgets require a local tax rate that increases 0.3% which together with growth will result in a tax levy increase of \$284,000 or 1.4 percent.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Treasurer, 9229 West Loomis Road, Franklin, WI 53132.

General information or more detailed financial and budget information relating to the City of Franklin can be found at the City's website, www.franklinwi.gov - Finance Department tab.